

ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Kelley Analyst: Roger Lackey Bill Number: SB 1445
Related Bills: See Legislative History Telephone: 845-3627 Amended Date: 07-03-2000
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Manufacturing Enhancement Area Employer Hiring Credit/Allow Expansion of Area & Include Agricultural Production as Business Eligible for Credits

SUMMARY OF BILL

This bill would provide for the expansion of a manufacturing enhancement area (MEA) in Imperial County by no more than 200 acres upon approval by the Trade and Commerce Agency (TCA).

In addition, this bill would expand the definition of "qualified taxpayer" in the MEA hiring credit to include taxpayers engaged in certain agricultural business activities as defined in the Standard Industrial Classification (SIC) Manual, 1987 edition.

This analysis does not address the bill's property tax provision, as it does not impact the department's programs and operations or state income tax revenue.

SUMMARY OF AMENDMENT

The July 3, 2000, amendments added the provisions discussed in this analysis.

This is the department's first analysis of the bill.

EFFECTIVE DATE

This bill would be effective January 1, 2001, and operative for taxable and income years beginning on or after that date.

LEGISLATIVE HISTORY

Senate Bill 200 (Stats. 1997, Ch. 609) enacted the MEA provisions.

SPECIFIC FINDINGS

Under the Government Code, existing state law provides for the designation of two MEAs. Using specified criteria, TCA designated one MEA in the city of Brawley and another in the city of Calexico (both located in Imperial County) in October 1998. Each MEA designation is binding for 15 years beginning January 1, 1998.

Under the Revenue and Taxation Code, existing state law provides a hiring credit for taxpayers conducting manufacturing business activities (as specified in SIC Codes 2011 through 3999) within an MEA. The hiring credit is allowable to businesses located in an MEA for a percentage of wages paid to qualified employees. A qualified employee must be hired after the area is designated an MEA and meet certain other criteria.

Board Position:

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_____ N	_____ OUA	_____ X PENDING

Department Director

Date

Gerald H. Goldberg

8/8/00

At least 90% of the qualified employee's work must be directly related to a trade or business located in the MEA and at least 50% must be performed inside the MEA. The business may claim up to 50% of the wages paid to a qualified employee as a credit against tax imposed on MEA income. The credit is based on the lesser of the actual hourly wage paid or 150% of the current minimum hourly wage. The amount of the credit must be reduced by any other federal or state jobs tax credits, and the taxpayer's deduction for ordinary and necessary trade or business expenses must be reduced by the amount of the hiring credit. To qualify for the hiring credit, businesses located in an MEA must hire at least 50% of their workforce from the county in which the MEA is located and, of that 50%, at least 30% of the local hires must be qualified disadvantaged individuals, as defined.

For businesses operating both inside and outside an MEA, the amount of hiring credit that may be claimed is limited by the amount of tax on income attributable to the MEA. Income is first apportioned to California using the same formula as that used by all businesses that operate inside and outside the state (property, payroll, and a double-weighted sales factor). This income is further apportioned to the MEA using a two-factor formula based on the property and payroll of the business.

This bill would provide for the expansion of an MEA in Imperial County by no more than 200 -acres, upon approval by TCA. Expansion of the MEA would occur only if the TCA found the additional territory proposed met the same criteria imposed on the existing MEAs, as well as certain other conditions. The other conditions would include approval by the governing body in which the MEA is located, a requirement that the area is zoned for industrial and commercial use, and a requirement that basic infrastructure, including gas, sewer, water, and electrical services, is available to the proposed area.

This bill would expand the definition of "qualified taxpayer" in the MEA hiring credit to include taxpayers engaged in agricultural service activities as described in SIC Codes 0211 through 0291. The major activity categories that encompass these code references include livestock, dairy farms, poultry and eggs, animal specialties, and general farms.

Implementation Consideration

Implementing this bill would occur during the department's normal annual system update.

Technical Consideration

This bill states that a qualified taxpayer is one engaged in SIC Codes 0211 to 0291 business activities and also in Codes 2011 to 3999 business activities. The use of the word "and" is inappropriate if it is the author's intent that a taxpayer need only be engaged in an activity described in at least one of the identified SIC codes. Amendments 1 and 2 would replace "and" with "or."

FISCAL IMPACT

Departmental Costs

This bill would not significantly impact the department's costs.

Tax Revenue Estimate

According to departmental data for existing Manufacturing Enhancement Areas (MEA), only \$30,000 in hiring credits was claimed by qualified taxpayers for the 1998-tax year.

Additional revenue losses from expansion of the designated MEAs and eligible businesses are projected to be very minor, less than \$250,000 annually.

BOARD POSITION

Pending.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO SB 1445
As Amended July 3, 2000

AMENDMENT 1

On page 6, line 22, strikeout "and" and insert:

or

AMENDMENT 2

On page 14, line 13, strikeout "and" and insert:

or